CASE STUDY

International hostilities over petroleum

Prior to the 11 September 2001 attacks on the U.S., the world had been experiencing a 20-year long decline in oil prices. The end of the '2nd oil shock' price spike in 1980 – the result of both Iran and Iraq curtailing their oil production to almost nothing at the outset of the war against each other – resulted in stable and reliable production levels of oil in the OPEC nations. Concurrently, countries in the western hemisphere such as Mexico and Venezuela greatly expanded their oil productions and exports and emerged as competitors on the global market. The Soviet Union became the world's top oil producer during the 1980s, while Americans enjoyed a new surge in domestic oil production from the Alaskan and the North Sea wells.[12] All of this added up to a glut of oil surplus throughout much of the decade, and oil prices fell to below $10 per barrel.[13]

This downward trend remained relatively stable until, on 2 August 1990 the military forces of Iraq, led by the dictator Saddam Hussein, moved into the neighboring nation of Kuwait and within two days of intense fighting seized control of the Kuwaiti government and annexed it for Iraq. Hussein claimed that Kuwait was now 'the nineteenth province of Iraq.' Among the reasons cited to justify the invasion, Hussein claimed that Kuwait had been stealing Iraqi oil through slant well drilling and that Kuwait's overproduction of oil had been hurting Iraq's revenues in the petroleum market.[14] It was also suspected that Iraq needed a way to repay the $80 billion debt it owed the U.S., which it had borrowed to pay for its war against Iran in the 1980s.[15] Regardless of the reasons, Hussein's objective for annexing Kuwait was abundantly clear to everyone. To quote Daniel Yergin, 'An Iraq that subsumed Kuwait would rival Saudi Arabia as an oil power, with far-reaching impact for the rest of the world.'[16]

The Iraqi occupation of Kuwait would only last for about seven months before a coalition of 36 nations led by the U.S. liberated Kuwait's capital and drove the Iraqi military into a full retreat. Among the coalition members was the Soviet Union, whose president, Mikhail Gorbachev, said that they would stand shoulder to shoulder with the United States throughout the operation. To place this point in context, the Berlin Wall – the Soviet Union's symbol of Cold War hostilities and isolation toward the West that had endured since the 1960s – was demolished just eight months before the Iraqi invasion of Kuwait. Its aftermath had been the focus of world politics until the Gulf War crisis happened. This temporary alliance between the two major world powers of the time would prove to be an early bellwether of policy changes toward the West for the Soviet Union, which was very soon to be dissolved and would reemerge as the Russian Federation.

Before the coalition forces were able to complete Iraq's withdrawal from Kuwait, Hussein decided that he would try to cause as much damage to the region's oil production as possible – and by extension the world's petroleum market. He imposed a 'scorched earth' policy on Kuwait's oil wells as his forces retreated into Iraq. As the soldiers were leaving Kuwait, they set fire to nearly 800 oil wells, which caused some of the worst environmental damage the world had ever seen. This was in addition to the six million barrels of oil that was also

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deliberately dumped into the Persian Gulf – which remains the largest oil spill in history – in an attempt to combat an anticipated coalition marine assault, which never came. All told, more than six million barrels of oil per day were destroyed by the Iraqis – much more than what Kuwait was producing per day, and even more than what the country of Japan, Kuwait's biggest customer at the time, was importing from them per day. It took more than ten months from the time the first fires were lit in January 1991 until the last fire was put out in November of the same year. All told, the fires burned through about one billion barrels of oil and left 85 percent of all Kuwaiti oil fields inoperable.[17]

As great as the environmental and economic damage to the nation of Kuwait, the Persian Gulf region and the global petroleum market were, the implications for leadership in the Middle East were perhaps the most drastic consequence of this conflict. The United States-led coalition forces had decided not to oust Saddam Hussein from his position of power over Iraq and instead anticipated that having been weakened and humiliated by his defeat, he would succumb to rival opposition within his own government and be overthrown by his own people. This, of course, did not happen, and Hussein managed to remain in power throughout the 1990s and on into the early twenty-first century. Despite this political miscalculation, several of the desired outcomes from the war were still achieved in unexpected ways. Yergin summarizes these outcomes nicely within two separate passages:

> Mideast politics, which so often bedeviled security of supply, was no longer a threat. In the decade that followed the Gulf crisis, it seemed that the Middle East was more stable than before the war and that oil crises and disruptions were things of the past. No longer was there the Soviet Union to meddle in regional politics, and the outcome of the Gulf crisis and the weight of the United States in world affairs looked like an almost sure guarantee of stability. All this was a positive and powerful indication of the world that seemed to be ahead. It might not have happened had Saddam not gone to war.[18]

This new environment was one that fell more in line with the era of globalization. This meant the industry became increasingly privatized and less regulated by national governments. The industry was now more integrated with the rest of the nation's economies, and nations were in turn further interconnected and dependent upon one another. This may not have been the intended outcome of the Gulf War; nevertheless, it served as a catalyst to make it possible. Still, none of this would have happened had it not been for one other major political event which also occurred in the same year as the Gulf War: the end of the Soviet Union.

On Christmas Day 1991, then Soviet president Mikhail Gorbachev announced to his nation that he would be stepping down from his office, and the Soviet Union would cease to exist by the beginning of the following year. In his speech, he said, 'we have a lot of everything – land, oil and gas and other natural resources – and there was talent and intellect in abundance. Yet we lived much worse than developed countries and keep falling

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behind them more and more.'[19] Such statements would have been unimaginable as recently as even the year before, as the Soviet Union had been closed off to the outside world for much of the twentieth century. Those in the inner circles of the government, however, knew for several years that the end was coming. The economic and industrial system the Soviets had been using for over half a century was established by Joseph Stalin and centered around a philosophy of self-sufficiency and independence, and as a result was very slow to generate revenue from the export of their most valuable of resources: oil and natural gas. It took the Soviet Union well into the 1960s to begin trading oil in the global market, and until the 1970s before they were trading natural gas. Moreover, these commodities remained their only significant revenue streams of international commerce. The powerful Russian oil magnate Vagit Alekperov once said, 'Crude oil along with other natural resources were nearly the single existing link of the Soviet Union to the world for earning the hard currency so desperately needed by this largely isolated country.'[20]

The new Russian Federation's main competitive advantage was in their vast reserves of both oil and gas resources – by the time of the Soviet Union dissolution, the oil fields of their western Siberia region were producing eight million barrels per day, enough to rival the world's top producer, Saudi Arabia. This level of production was enough to account for a full two-thirds of Russia's total revenue in the 1990s. Thus, the interests of the oil and gas sectors of Russia's economy 'drove the bus' when it came to making any major policy decisions about the nation's welfare. The needs and interests of those heading the ministries of oil and gas production were always placed ahead of all others, and those leaders would often take on a mafia-like persona by hearing requests from and granting favors to the other less fortunate government sectors suffering through their own respective budget crises. Time and again, Russian oil and gas revenues were called upon to do the heavy lifting for the Soviet economy, usually in the form of staving off an impending budget emergency for an essential function of society such as agriculture or police. Without that money, the Soviet Union faced severe shortages in providing some basic services to its citizens – famine, social instability, and even the breakdown of law and order all became distinct possibilities. Thus, the Soviets were faced with the double edges of the petroleum sword: its income enabled the country not just to survive but thrive and progress as a whole while burdened with an economy otherwise insufficient for meeting its own needs. At the same time, the stability (or at least the appearance of it) provided by the petroleum money became the country's crutch and further enabled the Soviets to keep putting off real investments and reforms into modernizing its infrastructure. The economist Yegor Gaidar, who would briefly serve as Russia's acting prime minister in 1992, observed this phenomenon:

> The hard currency from oil exports stopped the growing food supply crisis, increased the import of equipment and consumer goods, ensured a financial basis for the arms race and the

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> achievement of nuclear parity with the United States and permitted the realization of such risky foreign policy actions as the war in Afghanistan.[21]

All of these expenses would eventually snowball into an overwhelming mountain of debt and insolvency. Hampered by antiquated technology and organizational structures, the state-run Soviet oil and gas business just could not compete with the vertically integrated multination corporations of the West. When the Soviet Union finally disbanded and the new Russian Federation began at the beginning of 1992, it started an anarchic free-for-all of acquiring and protecting the infrastructure and real estate formerly held by the government. It was estimated, at one time, nearly 2,000 separate production companies arose from the various regions of petroleum reserves within Russia – though most were from the fields of western Siberia – and many of them were busy trying to claim and steal resources from one another unjustly. No one really knew who owned much of the oil they were all vying for, and this confusion gave rise to a profitable black market for anyone who could manage to sell Russian oil for hard currency.[22] The Russian companies greatly valued having 'cash in hand' since there was very little confidence at the time in the stability of the banking industry.

This instability was, at least in part, brought to an end by the privatization of the oil industry. The reconstruction of the industry in Russia was based on the adoption of the vertical integration model used by the capitalist countries of the west, and Russia quickly returned to profitable levels of production. In fact, the modernization of the organizational structure and industry practices in Russia ultimately resulted in Russia becoming one of the top oil-producing countries in the world, thereby transforming the twenty-first-century global landscape of the oil and gas industry.

The coinciding of peace and stability brought about in the Persian Gulf following the first Gulf War along with the reconstruction of the Russian oil and gas industry in the image of Western models made the 1990s the period of greatest petroleum production in the century. The price of gasoline consequently dropped to some of the comparatively lowest levels of the century. With oil and gas being so cheap and abundant, little effort was put into researching and developing alternative energy systems. Renewable resource technology such as photovoltaic solar, wind turbine, geothermal, and biomass suffered in obscurity throughout the decade. The current scope of adoption for these sources remains disappointingly small, and only in recent years has there been sufficiently renewed interest in them to generate enough implementation for renewable energy to register as contributing to meet the global energy demands. Some may argue that what brought renewable energy systems back into serious consideration was the major defining event of the geopolitical landscape for the twenty-first century thus far: the 11 September terrorist attacks on America and subsequent second Gulf War in Iraq. These events did indeed give rise to similar conditions reminiscent of the previous Gulf War in regards to a spike in oil prices (this time lasting for several years, though) and renewed fears about the security and reliability of oil from the Middle East.

Figure 5.3 The Five Components of Leadership Model applied to the energy markets case study

Both Iraqi leader Saddam Hussein and Russian leadership after the dissolution of the Soviet Union exhibited a leadership style that is predicated on ethical egoism. The contrast between the two very much shows the way in which the leader–follower relationship and a common goal can be impacted by the leader in an egoist framework. These two examples also offer a good case for the analysis of this approach to leadership as understood through the Five Components Model.

For an egoist leader, ethics and self-interest are necessarily tethered together. The moral choice is the one that serves the interest of the leader and the goal that he or she intends to work toward. This ethical framework places a lot of accountability on the leader to choose an ethical goal independently of the leadership relationship. While there is a mandate that leaders act ethically, the justification of the goal can take many forms, and there is no balance of the leader's authority. In the case of Saddam Hussein and 1990s Russian leadership, we see the contrast between a leader whose goal did not coincide with the interests of his followers and a leader whose interests *happened to* coincide with the interests of his followers. This is a crucial point in ethical egoism: the leader's interests and goals may happen to align with the interests or goals of his or her followers, but this is happenstance and not a requirement or consideration of the theory.

In this case, Saddam Hussein's invasion of Kuwait was not in line with the interests of any of the followers, in fact, it was harmful to their interests. Hussein aggressively and violently took over another country and in some cases enslaved its citizens, taking hostages and creating a refugee crisis. The Russian leadership, in contrast, sought to profit by acquiring real estate and the rights to oil and gas reserves writ large, and in doing so created a prosperous economic era for the citizens of Russia. Still, the egoist ethic prevented Russia

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leadership from thinking about the long-term stability of the investments that they were making. While petroleum can be profitable, the boom and bust cycle that it experiences is not always conducive to the long-term stability of an economy. Russia faced this reality in recent years when countries like Saudi Arabia possessed an almost limitless supply of crude oil and began to export it at a price point that was unprofitable for countries like Russia or the United States. The lack of development of sustainable and environmentally friendly energy sources is also an unfortunate consequence of the Russian attempt to become the world's largest producer and exporter of oil. In this case, the interests of leadership coincided with the goals of followers, though strictly by coincidence, and only for a relatively short time.

The goal for these leaders was to grow their respective country's economic means by asserting power over oil reserves. In both cases, the goal was mainly self-interested. The more prosperous the country, the better the leaders' lifestyles would be. In the case of Saddam Hussein, very little of the money earned through the invasion of Kuwait ever circulated through the economy. The goal of an egoist leader is always going to be tied to his or her own self-interest. The leader's own moral justification of that goal is also important. For Hussein, the invasion of Kuwait was ethically justified based on his belief (or purported belief) that Kuwait had engaged in stealing Iraqi oil through slant drilling, despite the fact that there was no evidence of this.

The context of the foreign conflicts over oil was possible only because of the nature of oil as a commodity. Oil has an extremely high value, but it is difficult to measure before it is acquired and processed. Hussein was able to justify his invasion of Kuwait based on the belief that they might be slant drilling and stealing oil from reserves below Iraq. This claim would have been difficult to prove or disprove based on how difficult it would be to measure the oil reserves before drilling. The relative instability of the political landscape in the Middle East also allowed for Hussein to take over Kuwait with only a grassroots resistance. This is a common theme in egoist leadership – often the followers have relatively little power and the context is already unstable. This political instability was also true of the Russian rush for oil. It occurred only after Gorbachev stepped down and the Soviet Union was dissolved, which made land available that had previously belonged to the state. The value held by these leaders was self-interest above all, and the engagement of their followers in a common goal was not a norm.